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Services Sectors: Fostering Competitive
Services Sectors in Developing Countries
Second session
Geneva, 18 July 1994
Agenda item 9

DRAFT REPORT OF THE STANDING COMMITTEE ON DEVELOPING SERVICES SECTORS: FOSTERING COMPETITIVE SERVICES SECTORS IN DEVELOPING COUNTRIES ON ITS SECOND SESSION

Held at the Palais des Nations, Geneva,
from 18 to 22 July 1994

Rapporteur: Mr. Z. Baltacioglu (Turkey)

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Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by **Friday, 29 July 1994** at the latest to:

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INTRODUCTION

1. The Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries held its second session at the Palais des Nations, Geneva, from 18 to 22 July 1994.

2. In the course of its session, the Standing Committee held ... formal plenary meetings and ... informal meetings.

Opening statements

3. The **Chairman of the Standing Committee at its first session**, in opening the second session, said that in the next few years, a great deal of work would have to be done in services sectors within the context of ongoing work on the GATS. The Standing Committee would serve as a useful forum for support work in that connection, and the participation of developing countries would certainly have to be promoted.

4. The **Chairman** said that, as the Uruguay Round had been concluded and the General Agreement on Trade in Services signed, the Committee now had a clear idea of the multilateral framework within which assistance would be provided to developing countries to increase their participation in world trade in services. UNCTAD could play a very important role in helping developing countries to participate more effectively in the international trading system and to identify their interests and policy options. The work of the Committee could be a major means of achieving this.

5. With regard to promoting transparency, the Committee would be addressing the issue of services statistics and of making available information on measures affecting service trade. Important aspects of strategies for fostering competitive service sectors, including a comparative analysis of the problems and potential of service sectors in various countries, issues related to the temporary movement of persons, recognition of professional qualifications, and the impact of subsidies on service trade would also come up for detailed discussion. While addressing these issues, the Committee should keep in focus the direction provided by the

Cartagena Commitment, so that deliberations on specific issues could form parts of a larger, comprehensive understanding of strategies for strengthening service sectors in developing countries and for enhancing their participation in international trade in services. He hoped that the work of the Committee would serve as a concrete means of support from the international community for concerted policy-making in the service sector by developing countries.

6. The **Officer-in-charge of UNCTAD** said that the work of the Standing Committee was a reflection of the Cartagena Commitment, which encouraged the international community to continue support for concerted policy actions of national Governments to strengthen the production and export capacity of their service sector. At its first session, the Standing Committee had agreed upon a detailed work programme for the period up to the next Conference, and at the second executive session of the Trade and Development Board, held in March 1993, a provisional agenda for the second session of the Standing Committee had been approved. The secretariat had prepared background documentation dealing with most items. The work on many of the items of the work programme would have to take into account the commitments accepted by participants in the GATS. The secretariat had prepared an assessment of the results of the Uruguay Round in the services sector. In its documentation, the secretariat solicited information from Members with respect to: (a) the experience at the national level with the application of policy measures aimed at developing competitive service sectors and perceived impediments; (b) measures in other countries which might be impeding access to world markets for the service exports of developing countries; (c) experiences with regional, subregional and interregional cooperation; and (d) studies which were relevant to the other items in the work programme.

7. The secretariat had prepared the background documentation with the provisions of the Cartagena Commitment in mind. Work undertaken under different items of the work programme could form elements of a comprehensive document that would concretize the recommendations of the Commitment, and thus help orient future work in the area. It was hoped that the documentation prepared under all items would contribute to these objectives, but their attainment would depend entirely on the contribution of member States, and in some cases other international organizations, to the work of the Standing Committee.

Chapter I

PROGRESS REPORT BY THE SECRETARIAT ON THE IMPLEMENTATION OF THE WORK PROGRAMME OF THE STANDING COMMITTEE

(Agenda item 3)

8. For its consideration of agenda item 3, the Standing Committee had before it the following documentation:

> "Progress report by the secretariat on the implementation of the work programme of the Standing Committee: prepared by the UNCTAD secretariat" (TD/B/CN.4/25 and Add.1).

General statements

9. The spokesman for the **European Union** (Germany) said that the general issue on the agenda was the central importance of healthy and strong services sectors to all nations, and specifically to the developing world and the countries in transition to a market economy. The main task of the second session of the Standing Committee was to analyse prospects for developing and strengthening the services sectors and enhancing the trade in services of developing countries. The countries of the European Union were firmly committed to contributing positively to that process, in the spirit of Cartagena.

10. Delegations had received comprehensive documentation for the items to be discussed, but it was to be hoped that the secretariat would in future be able to present all documents in all official languages in accordance with the six-week rule.

11. The General Agreement on Trade in Services (GATS) included provisions concerning the increasing participation of developing countries, which should be facilitated by specific commitments in areas relating, for example, to access to technology on a commercial basis, and by the improvement of their access to distribution channels and information networks and the liberalization of market access in sectors and modes of supply of export interest to them.

12. Promoting transparency in developing countries was a new and difficult task. This particular area therefore deserved special attention, because in most developing countries new services sectors were developing rapidly as an important

element of the economy. This trend would be enhanced by the development of technology and the expansion of trade, which was the central objective of the successfully concluded Uruguay Round.

13. He reiterated the commitment of the members of the European Union to strengthening UNCTAD's technical assistance and integrating it into its work, within its mandate and without duplication with other agencies, as set out in the Cartagena Commitment.

14. The representative of the **European Commission** noted that the second session of the Committee was taking place in the wake of an historic event, namely the conclusion of the Uruguay Round negotiations, which included a multilateral legal framework for the progressive liberalization of trade in services. The European Union recognized the particular situation of developing countries with regard to the necessity for transfer of technology on a commercial basis, and it endorsed the conclusions of the report published by UNCTAD in conjunction with the World Bank on the policies necessary to increase the efficiency of the services sector in developing countries.

15. With regard to specific items on the Standing Committee's agenda, the proposal by the UNCTAD secretariat to convene an intergovernmental group of experts to examine ways of enhancing access to and use of information networks and distribution channels (TD/B/CN.4/25) was an interesting one which should be discussed further. Concerning GATS, much of document TD/B/CN.4/25/Add.1 could be endorsed, but the assertion that the major concessions of the negotiations had been made by developing countries in accepting "reduced freedom of action with respect to trade in services" was a curious one, as the GATS framework and Annexes would apply to all Members; in that respect, all Members had accepted that their freedom of action be curtailed in return for multilateral disciplines. Moreover, to conclude that developing countries had not obtained commitments of major economic value because developed countries' commitments centred on commercial presence and the movement of persons in the form of intracorporate transferees was to overlook the advantages brought to developing countries' services sectors by investment and transfer of technology. Developing countries' schedules placed emphasis on commercial presence rather than on cross-border supply of services in order to ensure that trade directly benefited the domestic economy. Over-emphasizing trade based on the export of cheap labour would be a risk in the long term.

16. With regard to the development of service-trade statistics, should the

Committee consider it useful, the European Union would be willing to describe in more detail its own efforts to collate domestic statistics. On the question of a database, in the absence of acceptable statistics on trade in services, a database on measures affecting trade in services might be considered premature. Article III of the GATS comprised a general obligation of transparency in respect of all measures affecting trade in services. Given the requirement to establish "enquiry points" under the GATS and for developed countries to set up "contact points" within the same framework, the European Union had yet to be convinced that the creation of an UNCTAD database on measures affecting trade in services would bring sufficient added-value.

17. The points made in the secretariat's report on a comparative analysis of services sectors in developing countries were broadly acceptable to the European Union. As for the specific studies on subsidies, the movement of natural persons and the recognition and harmonization of qualifications, it might not be helpful for the Committee to become prematurely involved in these areas, where negotiations were ongoing (movement of natural persons) or would soon commence (subsidies, disciplines on qualification requirements and procedures for professional services).

18. The representative of **GATT**, referring to the progress made in the context of the General Agreement on Trade in Services since the conclusion of the Uruguay Round, said that the negotiations on maritime transport, basic telecommunications, temporary movement of natural persons and financial services had been extended after the conclusion of the Round. The first meetings on the first two of those topics had taken place recently, and it had been decided that questionnaires would be sent to the negotiating countries on their market structures and regulatory regimes in the areas of basic telecommunications and maritime services. UNCTAD's request for observer status had been approved at these meetings, and the next meetings in these areas were scheduled for October 1994.

19. Concerning financial services, the relevant body would be created in October to start negotiations, while the negotiations on temporary movement of natural persons would also start soon. Negotiations on unfinished issues such as subsidies, safeguard and government procurement would also continue. Work on professional services would begin soon, and it would start with accounting services.

20. The representative of the **Russian Federation** said that services were

occupying an increasingly important part in the economic policies of her country, which reflected not only the increasing role of services in the Russian economy, but also the process of liberalization of international trade in services.

21. However, the level of development of various services sectors in the Russian Federation was uneven. On the one hand, traditional service sectors such as tourism were only just emerging, in particular as a result of the privatization process. On the other hand, such services sectors as space communications, television, meteorology, monitoring of the environment, and space launching were rather well developed and sophisticated, which meant, therefore, that the Russian Federation had specific features and interests in terms of the development and competitiveness of its national services sectors. The increasing role of services was also reflected in national statistics, which had not previously included such data. In this context, she recommended that the UNCTAD secretariat should proceed with its efforts to develop a conceptual basis for collecting and processing statistical information on services which would be internationally compatible. She also emphasized that the Committee's work on definitions of trade in services and classification of services would contribute to the development of services sectors in the developing countries and economies in transition, as such activities were of considerable importance for elaborating the relevant legislation in those countries. The consideration of such issues as movement of natural persons, recognition of professional qualifications and the impact of restrictions on the movement of natural persons providing services on the export capabilities of developing countries and economies in transition was equally important. She also supported further work by UNCTAD in studying the impact of subsidies on trade in services, as well as in such areas as collection and dissemination of information concerning measures restricting market access of services and service providers, the specificity of development of various services sectors and their impact on national economies, and the impact of trade liberalization in services on national economies and individual services sectors.

22. The representative of **Mexico** said that the international trading system was at a very important stage in its development, and in that connection he highlighted the importance of trade in services to both developed and developing countries, as well as the need for a parallel liberalization of goods and services.

23. The GATS provided a suitable regulatory framework in which to continue progressive liberalization on a mutual basis, and the sectoral annexes clarified the general obligations to be applied to specific commitments negotiated during the

Round. These included some of special interest to developing countries, and therefore UNCTAD's future work should devote special attention to those areas.

24. One of the main areas of focus in the future work of UNCTAD should be professional services, the aim being to ensure the more effective participation of developing countries in discussions on this topic in the World Trade Organization. He also emphasized the importance of establishing a data base and continuing the studies on subsidies to be carried out in collaboration with the appropriate organizations.

25. Finally, he thanked UNCTAD for the technical assistance provided to Mexico in the preparation of its National Study on Services, as well as the technical assistance provided to developing countries during the Uruguay Round.

26. The representative of **Cuba** underlined the importance of UNCTAD's work programme on services for her country, because it had provided a very good background for the development of national policies, as well as helping developing countries to explore different ways and means towards a progressive liberalization of services. She also expressed the support of her country for UNCTAD's technical assistance for developing countries in connection with the issues still pending from the Uruguay Round.

27. The representative of **Egypt** said that the secretariat's progress report (TD/B/CN.4/25/Add.1) provided a basic background to a discussion on the main articles of the General Agreement on Trade in Services, and her country subscribed to the analysis and assessment provided in that document. With reference to paragraph 37 of the document, more attention could be paid in the Committee's future work to increasing the participation of developing countries in the international trading system and on how to make Article IV of GATS more operational. Item 3 (g) of the work programme of the Standing Committee was very relevant in this respect, and an assessment of progressive liberalization should address both national and international issues.

28. With regard to temporary movement of natural persons, she stressed the educational and assisting role of UNCTAD in enhancing the negotiating capacity of developing countries on this issue, and expressed the hope that paragraphs 104-106 of the document on temporary movement (TD/B/CN.4/24) should be given all due attention. With respect to the proposal for an intergovernmental group of experts to address the issue of information networks and distribution channels, her country could go along with the proposal if the Committee so decided. However, Egypt would

prefer a small informal group to do the groundwork first, with the results of this being addressed subsequently by the Committee or by an intergovernmental expert group.

29. The representative of **Bangladesh** said that developing countries should not be expected to plunge into a blanket liberalization programme that included sectors where it was not in their interest to liberalize. Even the United States and the European Union, for example, were still not in a position to fully liberalize their agriculture, and discussions on the liberalization of the movement of natural persons continued to face resistance from developed countries in GATT. It was therefore important that developing countries should identify areas where they had a comparative advantage and where liberalization would be of benefit to them and then ask UNCTAD for assistance in those areas.

30. The representative of the **United States of America** said that the documentation which the secretariat had prepared for the Standing Committee's session should be seen as part of UNCTAD's efforts to analyse the outcome of the Uruguay Round and provide information to developing countries on how they could take advantage of the results of the Uruguay Round and of the ongoing negotiations. She welcomed the progress report presented by the secretariat and indicated the particular interest of her country in the issue of services statistics, given the difficulties encountered by several countries in keeping good statistics on the service sector.

31. The representative of **Chile** underlined the crucial importance of the deadline for the implementation of the Final Act of the Uruguay Round, namely 1 January 1995. In this connection, he emphasized that UNCTAD's work programme should be focused on an in-depth study of all the issues under discussion in the ongoing negotiations of GATS. This could be extremely useful in helping to overcome the asymmetry in the way in which these issues were being dealt with in the GATS.

32. He supported the suggestion to organize an expert group on access to and use of information networks, highlighting the importance of the issue in the context of the Uruguay Round negotiations. The group should be small initially. He also expressed support for the development of a database on services containing trade measures affecting service trade. The database should be user-friendly, and it should not simply be an exhaustive catalogue of legislation. Finally, he expressed support for UNCTAD's work in the area of subsidies.

33. The representative of **China** said that, for developing countries trying to develop their service sectors, the challenges posed after the conclusion of the Uruguay Round were greater than when the Committee had been established. There was a large gap between the developed and the developing countries in the services sector, and developing countries faced a major handicap. He therefore suggested that the Committee should prepare more studies on policy measures that countries should adopt to strengthen their service sectors. He also drew the attention of the Committee to the ongoing negotiations in GATS, and said that these concerned some areas of vital interest to developing countries. The developing countries lacked experience and knowledge of the issues in these areas, and consequently there was a need to strengthen the capacity of UNCTAD to provide the necessary technical assistance to developing countries in this respect. Finally, he felt that the items before the Committee were too numerous, and the Committee might not be able to address all of them. He suggested that working groups could be established to deal with some of the items, so that the Committee could focus its attention on major policy issues.

34. The spokesman for the **Asian Group** (Indonesia) said that the Asian countries viewed the Committee's work as a continuation of the initiatives taken at Cartagena. The conclusion of the Uruguay Round presented tremendous opportunities and challenges, and the Asian Group hoped that the work of the Committee would be an important means for mobilizing support from the international community for policy actions by developing countries to enhance their service exports and their participation in world markets.

35. With respect to promoting transparency, Asian countries would greatly welcome detailed information on efforts being undertaken by countries to improve their service statistics, and on the methodologies being used. They noted with keen interest the efforts made by the UNCTAD secretariat in designing a prototype database to provide easier access to information on measures affecting service trade, and looked forward to understanding more clearly the modalities for participating in the database and the uses to which it could be put.

36. With respect to a comparative analysis of national and regional experiences in the development of the service sector, Asian countries felt that they could benefit from more information from national Governments. Asian countries also expressed their interest in the experience of other countries with respect to the issue of subsidies in the service sector, and in information on the impact of subsidies on service exports from the region.

37. One of the major areas of interest for Asian countries in the Uruguay Round negotiations on trade in services concerned the temporary movement of natural persons as service suppliers. The Asian countries were concerned about the tightening of regimes for temporary entry in several countries. Although they recognized that such a tightening was often due to political and economic aspects of immigration, it was important that it did not result in impediments to the legitimate temporary mobility of service suppliers. Asian countries were particularly interested in the inclusion of the issue of harmonization and recognition of qualifications in the work programme. They felt that there was a need for a deeper enquiry as to how far this posed problems for developing-country service exports.

38. One area where Asian countries were especially keen on learning from the experiences of other regions was that of regional cooperation in the services sector. Although the formal structures for such cooperation had been in place in Asia for some time, Asian countries had made less progress than many other regions in using them effectively.

39. With regard to technical cooperation it was hoped that this work would be strengthened in accordance with the mandate of the Cartagena Commitment so that it could become a more focused and effective tool for providing assistance to developing countries in fostering more efficient and more competitive service sectors.

40. Finally, the Asian Group agreed that the issue of access to information networks and distribution channels should be considered by experts, who should prepare a report for the next session of the Standing Committee.

Chapter II

PROMOTING TRANSPARENCY

(Agenda item 4)

41. For its consideration of agenda item 4, the Standing Committee had before it the following documentation:

"Database on measures affecting service trade: note by the UNCTAD secretariat" (TD/B/CN.4/26) (agenda item 4(ii));

"Concept of services trade statistics" (UNCTAD/SDD/SER/1) (background document for agenda item 4 (i)).

42. The **Chief of the Data Management Service**, introducing the background note on the "Concept of services trade statistics" (UNCTAD/SDD/SER/1), which discussed the work of agencies involved with services statistics, and trade in services in particular, and reviewed progress towards a conceptual framework at the international and national levels, highlighted issues such as the inadequacy of statistics on trade in services, the efforts being made to improve statistics, and the implications for statistics of the Uruguay Round definition of trade in services. At the invitation of the Vooburg Group, Eurostat, OECD, GATT, IMF and UNCTAD had addressed conceptual and statistical issues, and UNCTAD had initiated surveys of methods and available data, particularly within the Asian region. GATT and UNCTAD had been working closely with a view to establishing a task force to coordinate ongoing efforts in the area of trade in services statistics. In conclusion, he said that the creation of WTO would give the necessary political impetus to help develop research activities into a permanent machinery for compilation of needed information.

43. The representative of **GATT** said that he supported the views of the Chief of the Data Management Service of UNCTAD with respect to work on statistics on trade in services. The ultimate objective of the efforts being made was the preparation of a manual in cooperation with other organizations. In its work, the task force referred to by the Chief of the Data Management Service would give priority to needs relating to the GATS.

44. The representative of **Bangladesh** said that the Committee should exercise caution when considering efforts to rationalize requirements on compilation of

statistics on trade in services. All countries had not made commitments on all sectors under the GATS, and the least developed countries had made commitments in only a few selected sectors. If they were required to collect statistics on all sectors, it would place an enormous burden on their resources.

45. The representative of **China** said that the issue of improving service trade statistics was a matter of concern for China. Developing countries had begun participating in services trade rather late, and their share in international service trade was still quite low. As a result, the state of their statistics in the field of services was also backward. He expressed his country's interest in learning more about the methods used by other countries for the compilation of statistics on services trade, and he stressed that this was an area where technical assistance from UNCTAD would be needed.

46. The representative of **Algeria** said that the joint exercise being undertaken by UNCTAD and GATT towards rationalizing the methods for collecting service trade statistics was of great interest to her country, and Algeria would support efforts being made in this respect. She inquired when the manual on service statistics would become available for use and when the efforts at rationalisation would be completed. She also asked whether this process would be undertaken on a progressive or a gradual basis, focusing on methods for statistics in individual sectors.

47. The representative of **Romania** asked for more details on the timeframe of the joint efforts being made by UNCTAD and GATT to produce a manual on service trade statistics. He also felt that UNCTAD should include elements to improve internationally comparable statistics in the area of services in its documentation, as well as in its technical assistance activities.

48. In response to points raised during the discussion, the **Chief of the Data Management Service** said that the special task force on service statistics had been set up jointly by GATT, UNCTAD, OECD, Eurostat and IMF. The first meeting of the task force had been held on 7 and 8 July 1994, and the terms of reference for the task force included a stocktaking of the efforts made by national Governments to improve service statistics and the preparation of a manual on concept definitions and methodologies in this area. A first version of the manual was expected to be circulated by June 1995.

Chapter IV

ORGANIZATIONAL MATTERS

A. Opening of the session

49. The second session of the Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries was opened by Mr. Haron bin Siraj (Malaysia), Chairman of the Standing Committee at its second session.

B. Election of officers
(Agenda item 1)

50. At the opening plenary of its second session, on 18 July 1994, the Standing Committee elected its bureau as follows:

Chairman:	Mr. Gonzalo Gutierrez	(Peru)
Vice-Chairmen:	Mr. Youri Afanassiev	(Russian Federation)
	Mr. Peter Bauer	(Germany)
	Mrs. Rafla Mrabet	(Tunisia)
	Mr. Renato Salazar	(Colombia)
	Mr. Manbir Singh	(India)
Rapporteur:	Mr. Zafer Baltacioglu	(Turkey)

C. Adoption of the agenda and organization of work
(Agenda item 2)

51. At its opening plenary, the Standing Committee adopted the provisional agenda for its second session (TD/B/CN.4/22/Rev.1), as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Progress report by the secretariat on the implementation of the work programme of the Standing Committee

4. Promoting transparency

Progress report:

(i) Development of a conceptual framework for the collation and compilation of internationally comparable statistics (Work programme, item 2 (a))

(ii) The collection and dissemination of information on measures, including laws and regulations, affecting the access of services and service suppliers to world markets, including consideration of the possibility of a computerized database (Work programme, item 2 (b))

5. Fostering competitive services sectors

Comparative analysis:

- A comparative analysis of services sectors in developing countries (Work programme, item 3 (a))

Specific studies:

(i) The impact of subsidies on trade in services, especially on the exports of developing countries (Work programme, item 3 (d))

(ii) Temporary movement of persons as services suppliers (Work programme, item 3 (h))

(iii) Analysis of ongoing processes of recognition and harmonization of qualifications (Work programme, item 3 (i))

(vi) Regional, subregional and interregional cooperation on services (Work programme, paragraph 3 (j))

6. Technical cooperation

- Identification of areas where technical cooperation should be strengthened

7. Provisional agenda for the third session of the Standing Committee

8. Other business

9. Adoption of the report of the Standing Committee to the Trade and

Development Board.

D. Provisional agenda for the third session of the Standing Committee

(Agenda item 7)

[To be completed]

E. Other business

(Agenda item 8)

[To be completed]

F. Adoption of the report of the Standing Committee to the Trade and Development Board

[To be completed]